REMARKS

Claims 1, 3-11, 13-54, 56-65 and 68-99 were pending in this application. All of these claims have been cancelled in favor of new Claims 100-115.

All of the pending claims are presently rejected under 35 USC §103(a) in light of five different references, namely, Burgess, U.S. Patent No. 5,966,693; National Underwriter (7/12/99); CA Magazine (Vol. 132 No. 9, 11/99); Atkins, U.S. Patent No. 5,884,285; and Sexton, U.S. Patent No. 5,752,236. The present §103(a) rejection of all of these claims as set forth in paragraph 6 of the Office Action is not proper, as it does not go through each element of the claims and it does not demonstrate where each element is present in the claims. In an effort to expedite prosecution of this application, however, Applicant has deleted the present claims and has presented new claims 100-115. The pending claims were also rejected under 35 USC §112, and the amended claims overcome this rejection as well.

The invention as claimed herein is directed to the use of multiple entities to acquire both annuities and life insurance, wherein at least one entity is of a tax favored nature, and another entity is structured to provide certain liability protections to the insured persons. This invention has had significant commercial success due to this unique combination of entities, and the specific combination of these entities, and the various characteristics of these entities, are not taught or suggested by any of the prior art references.

Specifically, as set forth in Claims 100 and 115, a first entity is established to acquire annuities for the group of insured persons. This first entity is owned by a second entity which is of a tax favored nature. Different examples of such tax favored entities are set forth at page 14 of the specification. The income stream from such annuities is allocated to the second entity so

that it receives tax-favored treatment. This feature is not disclosed in any of the cited prior art references.

A third set of entities is used to acquire life insurance policies for the insured persons. Each of the third entities is set up in such a manner (such as a corporation or trust) so that the insured person will be shielded from any liability either from the commercial lender or from taxes on the annuity. The income stream from the annuities is then used to pay the annual premiums for the life insurance policies. If financing is used to acquire the policy (as in Claims 100 and 115), then the income stream can be used to pay the interest and principal on this financing. Therefore, there are significant tax advantages to this system as a method of estate planning.

The prior art of record, whether considered alone or in combination fails to teach or suggest the present invention as claimed. A review of each of these references will demonstrate the differences between the prior art and the invention as claimed.

The **Atkins** reference merely teaches a personal financial management program. It does not disclose or suggest any of the features of this invention as set forth in new claims 100, 113 or 115.

Burgess relates to a method for leveraging whole or universal life insurance for key employees by having the employer borrow money in installments in order to partly cover the insurance premiums on a policy owned by the employee. The employee is required to pay part of the premium or they can borrow against the policy for tax free retirement income. By contrast, in Claims 100 and 115, the income stream from an annuity is used for payment of the life insurance policy premiums. In Claim 100, a loan is used for purchasing selected annuities,

not for direct payment of the premium. **Burgess** does not teach or suggest the use of a trust, or a tax-favored entity as a vehicle for reducing or removing individual tax liability.

The **National Underwriter** article discusses a scenario where non-qualified tax-deferred contracts in fixed and variable forms are owned by an irrevocable trust where the beneficiary is the heir to the holder of the annuity. The **CA Magazine** article teaches an annuity with a life insurance contract as well as analyzing companies for financial and investment offerings. Specifically, the CA magazine article discloses the purchase of a life annuity or insured annuity in order to supplement retirement income and increase the after-tax return. There is no teaching or suggestion in either the **National Underwriter** or the **CA Magazine** article of the use of a loan to fund the purchase of an annuity in order to employ the income stream generated by the annuity to pay off both the insurance premiums and the payments on the loan, and neither article discusses the use of tax favored entities as claimed herein.

The **Sexton** reference does not teach these elements either, as it is relied on solely to provide the motivation for combining the other references; as will be demonstrated below, this reliance is improper.

There is no suggestion in these references indicating that there is a motivation to combine them. As indicated in the MPEP (Section 2143.01) and as discussed previously, there are three possible sources for a motivation to combine references: the nature of the problem to be solved, the teachings of the prior art, and the knowledge of persons of ordinary skill in the art. The level of skill in the art cannot be relied upon solely to provide the suggestion to combine references. Obviousness can only be established by combining or modifying the teachings of the prior art to produce the claimed invention where there is some teaching, suggestion, or motivation to do so found either explicitly or implicitly in the references themselves or in the knowledge generally

available to one of ordinary skill in the art. The test for an implicit showing is what the combined teachings, knowledge of one of ordinary skill in the art, and the nature of the problem to be solved as a whole would have suggested to those of ordinary skill in the art. See *In re Kotzab,* 217 F.3d 1365, 1370, 55 USPQ2d 1313, 1317 (Fed. Cir. 2000).

In the Office Action, the Examiner makes the following statement to demonstrate the motivation to combine the references:

> Finally, the motivation to combine Burgess in view of National Underwriter in view of CA Magazine in view of Atkins and further in view of Sexton is to teach a loan system which may be applied to the purchase of an annuity and a life insurance contract in which provides a system for generating an after tax return on an insured annuity arrangement that may be significantly greater than conventional interest-bearing accounts and which may also include annuities and insurance policies in an allocated combination needing the combination "life insurance contract" as defined by IRC Sect 7702 as enunciated by Sexton (col 5, lines 32-53).

There are several problems with this analysis. First, this statement reflects a misunderstanding of the invention disclosed in the present application and set forth in the current claims. It is not merely the intent to provide a favorable after tax return on this arrangement. Rather, some of the goals of the present invention are to use tax favored entities to minimize or eliminate the tax effect of the annuity income stream and to shield the insured persons from liability both for taxes and (if used) the loan to purchase the annuities. Thus, the basis for the alleged motivation would not even bring these disparate references together to teach the present claims.

Second, **Sexton** does not enunciate the teaching or suggestion that the Examiner identifies in the paragraph recited above. Sexton merely discloses a data selection system, and specifically a computer system to sort and select various life insurance policy contracts and the features of such contracts. It does not disclose, for example, the use of tax favored entities or

offer any suggestion or teaching that such tax favored entities can be used with life insurance contracts or annuities.

Finally, as noted above, none of the references cited teach the use of, *e.g.*, the use of tax favored entities. Therefore, even if there was a motivation to combine references, one would not have all of the elements of this invention as set forth in Claims 100 - 115.

In sum, it is respectfully submitted that the new claims 100 to 115 are in condition for allowance, and it is requested that this Amendment after Final be entered and that the application be granted a Notice of Allowability. Any questions may be directed to the undersigned attorney.

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Respectfully submitted,

By: _____

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